



Obtaining Greater Efficiency and Productivity in Defense Spending

Gold Coast Conference

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23 August 2011

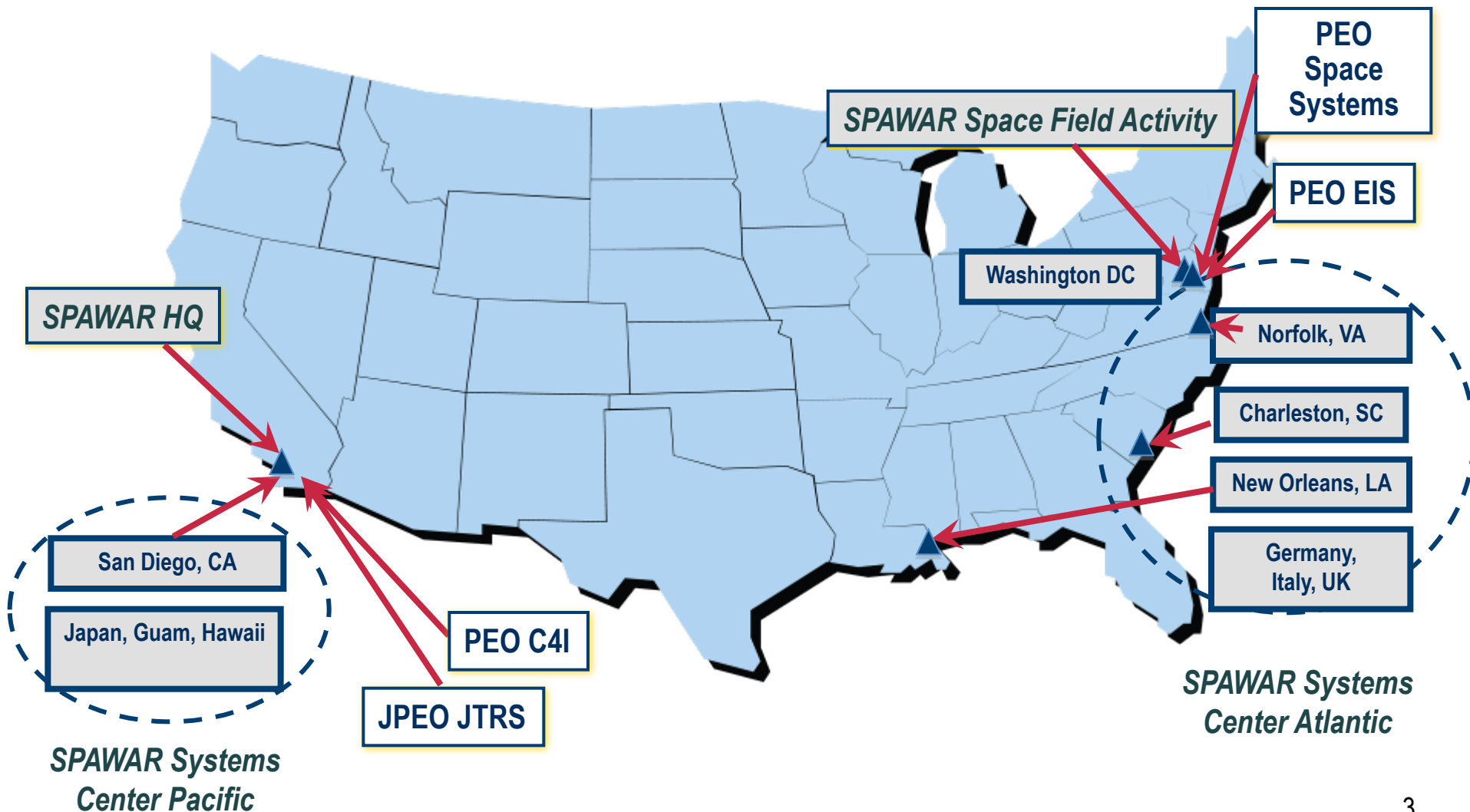
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Agenda

- ▼ Team SPAWAR Overview
- ▼ OUSD (AT&L) Memos: Better Buying Power
- ▼ Implementation and Related Initiatives
- ▼ Additional Focus Areas at SPAWAR

MISSION: *Making the Navy's Information Dominance Vision a Reality*



OUSD (AT&L) Memoranda

14 Sept 2010; 3 Nov 2010

“Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending”

✓ Target Affordability and Control Cost Growth

- Mandate affordability as a requirement
 - At Milestone A set affordability target as a Key Performance Parameter
 - At Milestone B establish engineering trades showing how each key design feature affects the target cost
- Drive productivity growth through Will Cost/Should Cost management *
- Eliminate redundancy within warfighter portfolios
- Make production rates economical and hold them stable
- Set shorter program timelines and manage to them

✓ Incentivize Productivity & Innovation in Industry

- Reward contractors for successful supply chain and indirect expense management *
- Increase the use of FPIF contract type where appropriate using a 50/50 share line and 120% ceiling as a point of departure *
- Adjust progress payments to incentivize performance *
- Extend the Navy's Preferred Supplier Program to a DoD-wide pilot *
- Reinvigorate industry's independent research and development and protect the defense technology base *

**Addressed in brief*

OUSD (AT&L) Memoranda

"Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending"

✓ Promote Real Competition

- Present a competitive strategy at each program milestone *
- Remove obstacles to competition
 - Allow reasonable time to bid *
 - Require non-certified cost and pricing data on single offers *
 - Require open system architectures and set rules for acquisition of technical data rights *
- Increase dynamic small business role in defense marketplace competition

✓ Improve Tradecraft in Services Acquisition

- Create a senior manager for acquisition of services in each component, following the Air Force's example *
- Adopt uniform taxonomy for different types of services
- Address causes of poor tradecraft in services acquisition *
 - Assist users of services to define requirements and prevent creep via requirements templates
 - Assist users of services to conduct market research to support competition and pricing
 - Enhance competition by requiring more frequent re-compete of knowledge-based services
 - Require that services contracts exceeding \$1B contain cost efficiency objectives
- Increase small business participation in providing services

** Addressed in brief*

OUSD (AT&L) Memoranda

“Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending”

✓ Reduce Non-Productivity Processes and Bureaucracy

- Reduce the number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues
- Eliminate low-value-added statutory processes
- Reduce by half the volume and cost of internal and congressional reports
- Reduce non-value-added overhead imposed on industry
- Align DCMA and DCAA processes to ensure work is complementary *
- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs *

* Addressed in brief

Implementation of Should-Cost Management

July 19, 2011

✓ Target Affordability and Control Cost Growth

Drive productivity growth through Will Cost/
Should Cost

- ▼ The DoN is directed to establish Should-Cost targets for ACAT I – III programs and to use Should-Cost Management to track subsequent performance
- ▼ Implementation requires the establishment of Will-Cost estimate and continual Should-Cost Management activity for all ACAT I – III programs
- ▼ Program managers will identify specific, discrete, and measurable actions or initiatives that achieve savings against the Will-Cost estimate
- ▼ The Milestone Decision Authority (MDA) will approve all Should-Cost Management initiatives and targets and will use these to set program execution goals
- ▼ Successful execution to the Should-Cost estimate will create assets within the DoN for reallocation to the highest priority needs



Should-Cost Management Guidelines

July 19, 2011

▼ Will-Cost Estimates and Should-Cost Management

- 2 separate estimates: a Will-Cost estimate to inform the program/budget process and a Should-Cost Management target for program management & execution

▼ Will-Cost Estimate (Budget Baseline) and Development

- The budget baseline will be informed by a Will-Cost estimate that aims to provide sufficient resources to execute the program under normal conditions

▼ Should-Cost Management (Program Execution Targets) and Development

- The program execution target will incorporate Should-Cost Management initiatives developed by the program office & used as a management tool within DoD

▼ Should-Cost Management Reporting Processes and Procedures

- Will-Cost estimates and Should-Cost Management targets are required for all ACAT I, II & III milestone decisions

▼ Reporting Methods and Templates

- Program offices responsible for tracking and reporting all Should-Cost targets and updates

▼ Process for withhold and release of the difference between the Will-Cost estimate (budget) and the Should-Cost Management target

- SAE decides distribution of the difference for all ACAT I programs; the MDA for all ACAT II; and program offices for ACAT III



National Defense Authorization Act for FY11

(DFARS Case 2011-D020)

Section 811: Cost Estimates for Program Baselines and Contract Negotiations for Major Defense Acquisition and Major Automated Information System Programs

- ▼ Amends 10 U.S.C. § 2334 to provide that funds which are made available to a major defense acquisition program or major automated information system program in accordance with its cost estimate for budgetary purposes, but are in excess of its cost estimate for contract negotiation purposes, will remain available for obligation in accordance with the terms of applicable authorization and appropriations Acts
 - Such funds may be used to:
 - I. cover any increased program costs identified by a revised cost analysis;
 - II. acquire additional end items in accordance buy-to-budget authority; or
 - III. cover the cost of risk reduction and process improvements;
 - Such funds may be reprogrammed in accordance with established procedures and the Director of Cost Assessment and Program Evaluation's concurrence

Incentivize Productivity

▼ Supply Chain / Indirect Expense Management

▼ Thoughts:

- Advantage in competition: Lower rates
- Component breakout?
 - Component Manufacturers
 - Mid-size and small business
 - GFE

Incentivize Productivity

▼ Increase FPIF Contracts

- Implemented once memoranda were promulgated – contract type addressed
- Propose CPIF, CPFF – why not FPIF? (Development to production)
- 50/50 share line and 120% ceiling guidance is intended to refocus on appropriate risk sharing with industry
- Note: Point of Total Assumption

▼ Adjust Progress Payments to Incentivize Performance

- DPAP created a Cash Flow tool to evaluate financing arrangements
- Consider performance based payments relative to progress payments
- Value of cash flow is a key
- Consider negotiating higher progress payments if it will lower total cost

Incentive Fee Changes

- ▼ A FAR amendment made a number of changes for incentive fee contracts, including,
 - A D&F required for all incentive and award fee type contracts
 - Requiring that award fees be linked to acquisition objectives in the area of cost, schedule, and technical performance
 - Clarify that a base fee amount at zero may be included in a cost plus award fee type contract
 - Prescribes narrative ratings that will be utilized in award fee evaluations
 - Prohibiting award fees if the contractor's overall performance is not satisfactory
 - Prohibiting the "rollover" of unearned award fees from one evaluation period to another

Incentivize Productivity

▼ Extend Navy's Preferred Supplier to a DoD-wide pilot

- Ongoing: Criteria under review at OSD
- CPARS a factor?
- Value in being cited as a preferred supplier

▼ Reinvigorate IRAD

- Is IRAD properly focused?
- SBIRs – Increased emphasis; especially Phase IIIs – grows small business; innovation likely outcome

Promote Real Competition

▼ PMs to address at each milestone

- How achieving?
- Component breakout?
- Technology insertion?
- SBIRs; especially Phase III?
- Open architecture? (See slides 15 & 16)
- Contracts must help lead; especially component breakout

Open Architecture

- ▼ Open Architecture is a goal of the DoD to decouple hardware from software to yield more modular, interoperable systems that adhere to open standards with published interfaces and fosters software reuse
 - Increase competition
 - Life cycle affordability
 - Cited in Dr. Carter's memo
- ▼ The Navy has developed a guide book for program managers for the enterprise on open architecture tenets with sample language for requirements, evaluation factors, data rights and contract data requirements lists (CDRLs)
 - Now on Version 2

Open Architecture

- ▼ Some of the key evaluation factors in Section L and M of our RFPs to implement OA tenets will consider:
 - Modular designs
 - Scalability of proposed designs
 - Minimizing of unique proprietary design for interfaces
 - Use of open standards
 - Software reuse of COTS
 - Data Rights (Government Purpose Rights)



Improving Competition in Defense Procurements

April 27, 2011

✓ Promote Real Competition

Allow reasonable time to bid

- ▼ If a competitive solicitation is open less than 30 days and only one offer is received, the contracting officer shall cancel the solicitation and re-solicit for at least an additional 30 days unless an exception applies or a waiver is granted.
- ▼ For competitive solicitations where only one offer was received, the contracting officer shall use price or cost analysis in accordance with FAR 15.404-1 to determine fair and reasonable pricing.
- ▼ If negotiations are necessary, the basis for negotiations shall be either certified cost or pricing data or data other than certified cost or pricing data, as determined by the contracting officer.
- ▼ The Head Contracting Activity (HCA) may waive the requirement to re-solicit or to conduct negotiations.

Improve Tradecraft

- ▼ DoD Guidebook for Services (<http://sam.daw.mil/arrrt>)
- ▼ Navy created a senior manager for services: Mr. Bruce Sharp
- ▼ Related actions in Services Contracts
 - Single award IDIQ requires D+F signed by HCA
 - Over \$100M single award IDIQ approved by ASN
 - Emphasis on multiple award contracts (MACs)
 - Services contracts in most cases limited to 3 years; especially knowledge based services
 - Services contracts, even if MAC, should have ramp on provision
 - SeaPort is a model – MAC; ramp ons (SPAWAR HQ virtually 100% of services on SeaPort)
 - Effort to standardize templates for services PWS
 - Emphasis on contracts which allow both CPFF and FFP orders
 - Services contracts over \$1 billion; must provide for cost efficiencies

DoD Source Selection Guidance

March 4, 2011

- ▼ Procedures to be used within the Department when conducting negotiated, competitive acquisitions utilizing FAR Part 15 procedures. Procedures include:
 - required use of standardized rating criteria and descriptions for the “technical” and “past performance” factors and;
 - a requirement that a Source Selection Advisory Council (SSAC) be appointed on Source Selections valued at over \$100M. The SSAC will also be required to provide the Source Selection Authority (SSA) with a written comparative analysis of proposals and award recommendation for the SSA’s consideration.
- ▼ Procedures effective July 1, 2011 and mandatory for all competitive acquisitions utilizing FAR part 15 procedures

Service Contracting

- ▼ All new PRs for services must be accompanied by a certification executed by the Program Manager or equivalent stating that the requirement does not include an unauthorized personal services arrangement
- ▼ The SOW/PWS statements of work or performance work statements clearly distinguish between Government employees and contractor employees (New DFARS section 211.106)
- ▼ (DoD interim rule effective September 8, 2010)
- ▼ Federal Register:

<http://edocket.access.gpo.gov/2010/pdf/2010-22226.pdf>



Action Taken in Response to OUSD (AT&L) Memorandum

January 4, 2011

✓ Reduce Non-Productive Processes and Bureaucracy

Align DCMA and DCAA processes to ensure work is complementary

- ▼ Director, Defense Procurement and Acquisition Policy (DPAP) memo outlines the following action DCMA and DCAA have taken and coordinated with DPAP to meet this task:
- DCAA no longer performs field pricing audits on cost-type proposals below \$100M and fixed-type proposals below \$10M
 - DCMA will be the single Agency responsible for issuing Forward Pricing Rate Agreements and Forward Pricing Rate Recommendations
 - DCAA plans to cease performing Financial Capability Reviews and Purchasing System Reviews. DCMA will conduct both reviews.
 - DCAA will continue to audit subcontract costs as part of its incurred costs audits and report any deficiencies to the Administrative Contracting Officer for resolution
 - DPAP published for public comment a proposed rule to clearly define DCMA and DCAA roles and responsibilities for assessing and determining status of contractors' business systems



OMB – “Myth-Busting”: Improve Communication with Industry February 2, 2011

- ▼ One-on-one meeting; pre-RFP – fairness is key
- ▼ Focus on “protest proof” is generally counter productive
- ▼ Do not be discussion “averse”
- ▼ De-briefs are mutually beneficial
- ▼ Industry days, draft RFPs are also mutually beneficial
- ▼ Better forecasting (small business)



Other Focus Areas at SPAWAR

- ▼ Fraud prevention
- ▼ COR program (See slides 24 & 25)
- ▼ Increase MACs
- ▼ Better forecasting
- ▼ SBIRs
- ▼ Small Business Targets
- ▼ “Incentives” to exceed small business targets
- ▼ Efficiencies



Contractor Oversight and COR Training

SPAWAR HQ

SPAWAR has developed the following POAM for improving contractor oversight and COR training:

TASK	STATUS
(1) Fill the billet of COR Manager	COMPLETED
(2) Review current CORs to develop an accurate list	COMPLETED
(3) Review training requirements of current CORs	COMPLETED
(4) Work with DAU to develop a COR course for SPAWAR	COMPLETED
(5) Develop training requirements for CORs to include WAWF, CPARS, Fraud indicators	COMPLETED
(6) Update COR Designation in contracts policy manual	COMPLETED

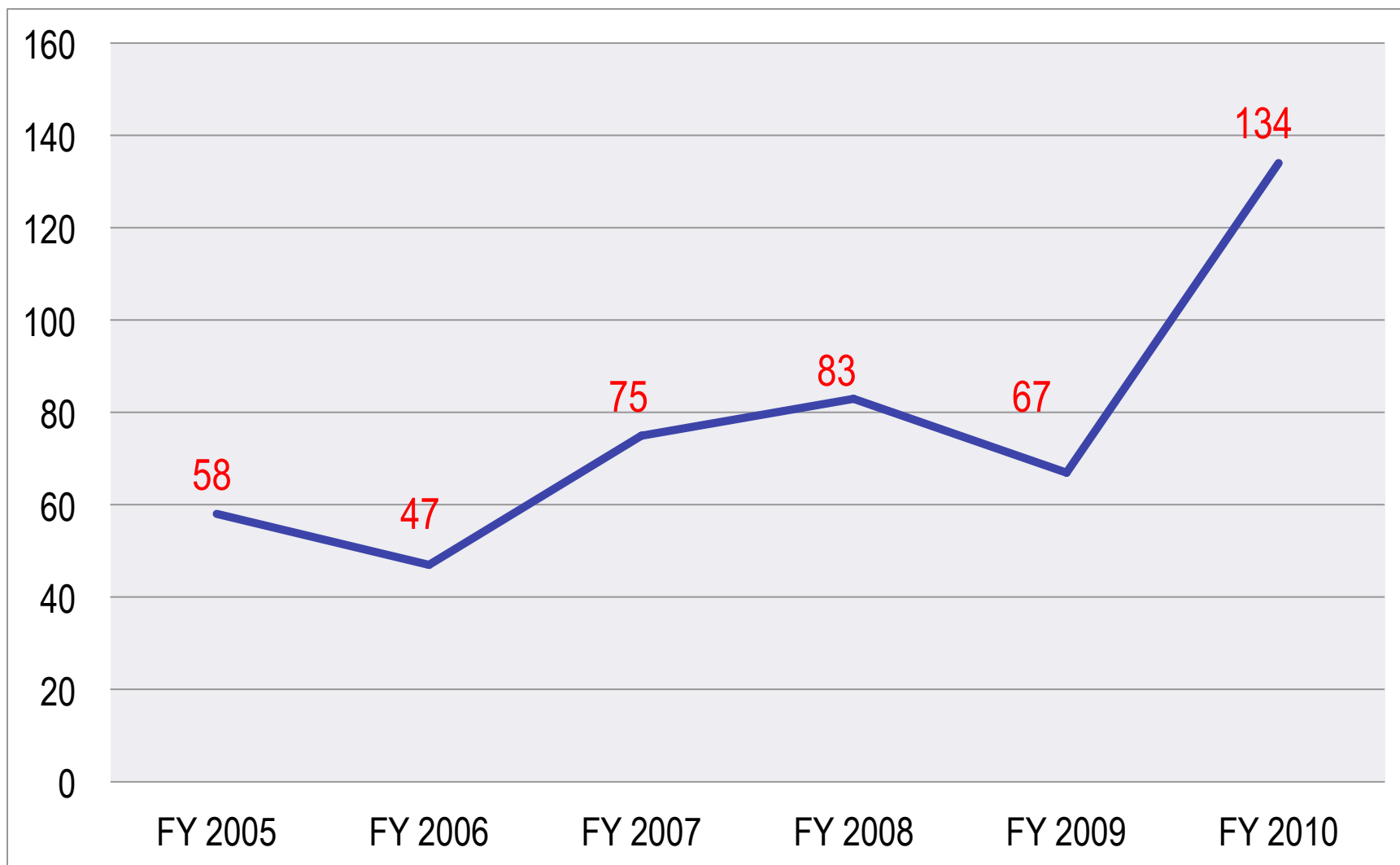


Contractor Oversight and COR Training

SPAWAR HQ

TASK	STATUS
(7) Update the COR Designation Letter	COMPLETED
(8) Develop Standardized PWS for Services	COMPLETED
(9) Develop Monthly Status Report with financial backup to invoice	COMPLETED
(10) Provide NCIS Fraud Indicator Training to CORs	COMPLETED
(11) Distribute the SSCPAC Financial Integrity Brief to all CORs	COMPLETED
(12) Provide over-the-shoulder training to CORs in Program Offices	IN-PROCESS
(13) Perform periodic reviews of COR files to ensure complete files	IN-PROCESS
(14) DoD COR Tool deployed	IN-PROCESS

Contracting Policy Changes by Year



Summary

- ▼ OUSD Memos of 14 September and 3 November are the key documents and demonstrate focus on cost, competition and “Getting a better deal”
- ▼ More changes expected, e.g., emphasis on cost/price in source selections – not after profit
- ▼ Stay tuned



Resources

Federal Business Opportunities

<https://www.fbo.gov/>

Government Executive

<http://www.govexec.com/dailyfed/0210/020210rb1.htm>

FAR

<http://farsite.hill.af.mil/VFFARA.HTM>

DFARS

<http://farsite.hill.af.mil/VFDFARA.HTM>

ASN (RD&A) Policy Memos

https://acquisition.navy.mil/rda/home/policy_and_guidance/policy_memos

DPAP

<http://www.acq.osd.mil/dpap/index.html>

Back Up



Document Streamlining – Program Protection Plan

July 18, 2011

✓ **Reduce Non-Productive Processes and Bureaucracy**

- ▼ Document Streamlining: The new PPP reflects the integration of the Acquisition Information Assurance (IA) Strategy and recognizes Program Protection as the Department's holistic approach for delivering trusted systems.
- ▼ PPP Review and Approval: Every acquisition program shall submit a PPP for MDA review and approval at Milestone A and shall update the PPP at each subsequent milestone and the Full-Rate Production decision.

Improving Milestone Process Effectiveness

June 23, 2011

✓ Reduce Non-Productive Processes and Bureaucracy

- ▼ The following changes to the milestone review process are directed:
1. **Milestone A:** MDAs shall conduct a MS A review supported by the information required by DoD Instruction 5000.02 before approving release of the final RFP for the Technology Development Phase.
 2. **Pre-Engineering and Manufacturing Development (EMD) Review:** Program Managers shall plan for and MDAs shall conduct a Pre-EMD Review before releasing the final RFP for the EMD Phase.
 3. **Milestone B:** MS B shall be conducted in accordance with the procedures outlined in DoDI 5000.02 and will include Acquisition Program Baseline approval and, for MDAPS, 10 U.S.C. 2366b certification.
 4. **Milestone C:** The AS and RFP for the Production & Deployment (P&D) Phase shall be submitted for MDA review and approval prior to MS C and in sufficient time to allow source selection to be completed prior to the milestone event.
 5. **Peer Reviews:** For competitive acquisitions, a Phase 1 Peer Review shall be conducted prior to release of the final RFP for any acquisition phase. For non-competitive acquisitions, a Phase 1 Peer Review shall be conducted prior to commencing negotiations.



Expected Business Practice: Post-Critical Design Review reports and Assessments – February 24, 2011

✓ **Reduce Non-Productive Processes and Bureaucracy**

- ▼ Elimination of the Program Manager's reporting responsibility for the Post-Critical Design Review (CDR) Report currently required by DoDI 5000.02, Enclosure 2.
- ▼ PMs of MDAPs shall be required to invite DASD(SE) engineers to their system-level CDRs and make available CDR artifacts.



Improving Technology Readiness Assessment Effectiveness - May 11, 2011

✓ **Reduce Non-Productive Processes and Bureaucracy**

Reduce frequency of OSD level reviews

- ▼ Technology Readiness Assessments (TRA) should focus only on technology maturity and the responsibility for ensuring that technology maturity risk is adequately identified and mitigated should rest on the PM, Program Executive Officer, and Competent Acquisition Executive, subject to ASD(R&E) review.
- ▼ Significant changes in TRA Guidance:
 - TRA is required for MDAPs at MS B
 - TRA will be conducted and reported by the PM
 - The PM will submit a TRA final report to the Component Acquisition Executive to the ASD(R&E)



Reduce Non-Productive Processes and Bureaucracy

- ▼ Developed templates for Acquisition Strategy and System Engineering Plan
 - “Document Streamlining – Program Strategies and Systems Engineering Plan” – Kendall (20 Apr 2011)

- ▼ Developed template for Program Protection Plan
 - “Document Streamlining – Program Protection Plan (PPP)” – Kendall (18 Jul 2011)

- ▼ Developed template for Life Cycle Sustainment Plan

Reduce Non-Productive Processes and Bureaucracy

- ▼ Issued guidance to improve Milestone Effectiveness by allowing MDA to review program plans prior to RFP release
 - “Improving Milestone Process Effectiveness” – Kendall (23 Jun 2011)
- ▼ Eliminated 45 of 97 USD(AT&L) internally generated reporting requirements and reduced page counts:
 - http://www.dtic.mil/whs/directives/corres/pdf/non_issuance_reports_for_elimination.pdf
- ▼ Eliminated PM responsibility for Post-Critical Design Review report
 - “Expected Business Practice: Post-Critical Design Review reports and Assessments” – Kendall (24 Feb 2011)

Reduce Frequency of OSD Level Reviews

- ▼ Issued new streamlined Technology Readiness Assessment Guidance to refocus the TRL certification process to be consistent with its original intent of assessing technology maturity and risk
 - “Improving Technology Readiness Assessment Effectiveness” – Carter (11 May 2011)
- ▼ Reconstructed DAES and DABs to refocus on affordable and executable programs
- ▼ Evaluating current ACAT-ID programs to develop a prioritized list of programs to delegate to ACAT-IC status
- ▼ Clarified role of OIPTs
- ▼ “Roles and Responsibilities of Office of the Secretary of Defense (OSD) Overarching Integrated Product Team Leaders (OIPT Leaders), Teams, and Team Members” – Kendall (19 Jul 2011)

Reduce Frequency of OSD Level Reviews

- ▼ Work with Congress to eliminate low value added statutory requirements
 - Legislative proposals
 - Submitted proposal to streamline Nunn-McCurdy process for quantity-induced breaches
 - Submitted proposal to repeal requirement for retroactive MS A and MS B certifications (Sections 2366a & 2366b, 10 U.S.C.)
 - Drafting proposal to stop statutory reporting at termination, or when program is 50% delivered or 50% (vice 90%) of planned expenditures have been made

Reduce Frequency of OSD Level Reviews

▼ Reduce the volume and cost of Congressional Reports

- Requested repeal of 158 recurring Congressional reports (55 from AT&L)
- Established 5 page limit for reports; additional page count must have justification
- All Congressional reports must include cost to produce on front cover

▼ Reduce non-value added requirements imposed on industry